

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Water Advisory Branch

RESOLUTION NO. W-4301
October 10, 2001

R E S O L U T I O N

**(RES. W-4301), DEL ORO WATER COMPANY, COUNTRY
ESTATES DISTRICT (CE). ORDER AUTHORIZING A GENERAL
INCREASE IN RATES, PRODUCING ADDITIONAL ANNUAL
REVENUES OF \$29,788 OR 82.9% FOR TEST YEAR 2001.**

SUMMARY

By Draft Advice Letter, accepted on April 19, 2001, CE seeks an increase in rates for water service to recover increased operating expenses and provide an adequate rate of return on its capital investment. This resolution grants a general rate increase in gross annual revenues of \$29,788 or 82.9% for Test Year 2001. This increase will provide a 13.00% rate of return on rate base in the test year.

BACKGROUND

CE requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$36,161 or 100.6% in 2001. CE's request shows 2001 gross revenue of \$35,942 at present rates increasing to \$72,103 at proposed rates to produce a rate of return on rate base of 13.6%. CE estimates that it serves approximately 89 metered customers in test year 2001.

The present rates were established on May 18, 1982, by Res. No. W-2981, which authorized an offset rate increase producing \$7,380 or 33.7% additional annual revenue. The last general rate increase was granted on May 22, 1979, by Res. No. W-2516, which authorized a gross revenue increase of \$6,264 or 40% additional annual revenue.

DISCUSSION

The Water Division's Water Advisory Branch (Branch) made an independent analysis of CE's summary of earnings and issued its report in August 2001. Appendix A shows CE's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between CE's and the Branch's estimates in operating expenses, and rate base.

CE's and the Branch's estimates of operating expenses differ in purchased power, employee labor, office services and rental, office supplies and expense, insurance, depreciation, property, and payroll taxes.

Purchased Power

CE estimates test year power cost of \$14,000. The Branch examined power bills and performed relevant calculations based on the amount of water sold and the amount of electricity used. Branch estimates 109,300 kWh of usage for the test year. Using Pacific Gas & Electric Company's (PG&E) A1-P, Small General Service Schedule, effective January 1, 2001, for summer and winter rates for the customer charge and energy charge, Branch estimates a slightly higher amount than the utility estimates. Branch used the latest PG&E tariff schedules on file. Also, the company has the opportunity to file an offset if the electric power rates increase disproportionately. Therefore, Branch estimates \$14,942 for this expense.

Employee Labor

CE proposed \$12,285 for employee labor based on previous years' expenses. After extensive discussions, Branch and CE compromised on a \$10,000 expense.

Office Services and Rentals

CE originally estimated test year office rental expense of \$2,000. The company then allocated \$63 from the general office. Branch believes that the Company is double-counting the expenses. CE has no explanation for the office services. Since the Company does not have any offices or rentals in the service area, Branch believes that the expense should be allocated out of the general office and therefore Branch recommends \$63 for this category.

Office Supplies and Expenses

CE estimated test year office supplies to be \$250. The company then allocated \$881 from the general office for a total of \$1,131. Branch again believes that the expenses are double-counted. Branch will remain consistent with the approach of taking the amount allocated from the general office. Therefore, Branch recommends CE's allocated expense of \$881 for this category.

Insurance

CE estimated direct insurance expenses to be \$1,700 based on \$800 for liability and \$900 for workers compensation. The company then allocated \$337 from the general office for a total of \$2,037. The Branch requested information regarding receipts for insurance expenses. Branch did not receive any documentation. Branch believes that the direct insurance expense is sufficient and an additional allocation from the general office should not be accepted. If the company chooses to use the allocated costs for this expense, then the total should not exceed the direct costs to avoid double counting of expenses. Therefore, Branch recommends \$1,700 for insurance.

Depreciation Expense

CE requests \$7,704 for depreciation. CE uses a 4% depreciation rate on base plant amounts. Then the utility proposes a 10% depreciation rate on test year plant additions. Branch believes that a 10% depreciation rate is too high and uses the straight line remaining life method of calculating depreciation with a depreciation rate of 4%.

Property Taxes

CE originally estimated test year local property taxes to be \$1,331. The company then allocated \$350 from the general office for a total of \$1,681. Branch requested information regarding receipts for property taxes and did not receive any documentation. Branch estimates property tax by using the average utility plant balance for the test year, which includes branch approved test year additions. Branch does not agree with the additional allocation from the general office for this expense. Therefore using a 1% composite tax rate supplied by the utility for local property taxes only, Branch recommends \$1,106 for property taxes.

CE was informed of the Branch's differing views of expenses and after discussion have settled on the results herein.

CE requested a rate of return of 13.6% for test year 2001. The Commission's Audit & Compliance (A&C) Branch recommends a rate of return range of 12.5% to 13.5% for Class D, 100% equity financed utilities. According to the Decision (D.) 99-10-064, dated October 21, 1999, in the Merger and Acquisitions OII, larger water utilities, such as Del Oro, who purchase small troubled water utilities, such as Country Estates, are entitled to the smaller utility's rate of return range. Del Oro purchased Country Estates on June 30, 2000. In D. 92-03-093 effective April 30, 1992 the Commission adopted the Operating-Ratio Method (ORM) of ratemaking as an alternate to the Return on Net-Investment (Rate Base) method for Class C and Class D Utilities. Accordingly, the Branch applied these two respective methodologies to CE. Branch found that the return on investment calculation produced a revenue requirement of \$65,730 at the rate of return of 13.0%. The ORM method using a rate of margin of 20% produced a revenue requirement of \$57,306. Therefore, per D. 92-03-093, Branch recommends the rate base revenue requirement of \$65,730 using the Return on Net-Investment (Rate Base) method.

CE's filed tariffs currently contain one rate schedule: CE-1A, Annual General Metered Service, Country Estates District. In its request, CE requested that the quantity rate (first rate block and second rate block) be combined into one rate. The Branch concurs. The Branch applied current Commission policies to adjust rate categories accordingly. The Branch's proposed service charge rates for the metered customers will recover 43% of its fixed costs. This is in compliance with D.92-03-093 that states:

“Class D water utilities are authorized to file to recover up to 100% of fixed costs in the service charge portion of their rate design.”

The Branch recommends only the 43% recovery because, to make it any higher, would violate the Branch's rate design policy that no customer should experience an increase in rates greater than twice the system average increase authorized.

At the Branch's recommended rates shown in Appendix B, the bill for a typical monthly bill for a 5/8 x 3/4-inch metered customer using 10.0 Ccf (One Ccf equals 100 cubic feet) would increase from \$13.95 to \$29.37, or 110%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

NOTICE AND PUBLIC MEETING

A notice of the proposed rate increase was mailed to each customer on April 20, 2001. The Branch received three letters protesting the magnitude of the rate increase and questioning the pump efficiencies. The Consumer Affairs Branch has not received any complaints since November 1998 through the telephone or mail. A public meeting was held at 7pm on Monday, May 21, 2001, at the Fairfax Elementary School in the service area. The utility's representative explained why the increase was necessary and the Commission representative explained the rate-making process. Approximately 70 customers attended the meeting. Many customers made statements, asked questions, registered complaints or made miscellaneous comments related to utility operations.

The letters questioning pump efficiencies related to the statements in the staff report that the Cindy Well pump uses 100 horsepower and produces 540 gallons per minute while the Weedpatch Well pump uses 40 horsepower and produces 450 gallons per minute. Both are at approximately the same elevation and both pump from the same level of the aquifer. It appears from the raw figures that the Cindy Well is considerably less efficient than the Weedpatch Well. Branch recommends that CE be ordered to have a well efficiency study done on both the wells and if either well is of very low efficiency, CE should be ordered to repair it. CE should be allowed to file an Advice Letter to recover the cost of the efficiency tests and the cost of repair.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements.

Del Oro files its Annual Reports regularly for each district. There are no outstanding Commission orders.

FINDINGS

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates proposed by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used in preparation of this report are reasonable and should be adopted.
4. The Branch recommendation that CE be ordered to have a well efficiency study done on both wells is reasonable. If either well is of very low efficiency, CE should be ordered to repair the well and be authorized to file an advice letter to recover the cost of the efficiency tests and the repair.
5. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Del Oro Water Company, Country Estates District, to file an advice letter incorporating the summary of earnings and the revised schedules attached to this resolution as Appendices A and B respectively, and concurrently cancel its presently effective rate schedules: Schedule CE-1A, Annual General Metered Service, Country Estates District. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of its filing.
2. Del Oro Water Company, Country Estates District, is ordered to have a well efficiency study done on both wells. If either well is of very low efficiency according to Water Division staff, Del Oro Water Company, Country Estates District, is ordered to repair the well.
3. Del Oro Water Company, Country Estates District, is authorized to establish a memorandum account to track the costs of efficiency tests and, if needed, repairs. Del Oro Water Company, Country Estates District, may file an advice letter to obtain recovery of reasonable expenses tracked in the memorandum account.

4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on October 10, 2001; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President

HENRY M. DUQUE

RICHARD A. BILAS

CARL W. WOOD

GEOFFREY F. BROWN

Commissioners

APPENDIX A

**DEL ORO WATER COMPANY
COUNTRY ESTATES DISTRICT**

SUMMARY OF EARNINGS

Test Year 2001

Item	Utility Estimated		Branch Estimated		Adopted
	Present	Requested	Present	Requested	
	Rates	Rates	Rates	Rates	
<u>Operating Revenue</u>					
Metered Rates	\$ 35,942	\$ 72,103	\$ 35,942	\$ 72,104	\$ 65,730
Total Revenue	\$ 35,942	\$ 72,103	\$ 35,942	\$ 72,104	\$ 65,730
<u>Operating Expenses</u>					
Power	14,000	14,000	14,942	14,942	14,942
Other Volume Related	3,600	3,600	3,600	3,600	3,600
Materials	500	500	500	500	500
Employee Labor	12,285	12,285	10,000	10,000	10,000
Contract Work	4,000	4,000	4,000	4,000	4,000
Transportation Exp.	0	0	-	-	0
Other Plant Maintenance	0	0	-	-	0
Office Salaries	3,243	3,243	3,243	3,243	3,243
Management Salaries	1,185	1,185	1,185	1,185	1,185
Employee Benefits	67	67	67	67	67
Uncollectibles	0	0	-	-	0
Office Services & Rental	2,063	2,063	63	63	63
Office Suppl. & Exp.	1,131	1,131	881	881	881
Professional Services	135	135	135	135	135
Insurance	2,037	2,037	1,700	1,700	1,700
Regulatory Comm. Exp.	500	500	500	500	500
General Expenses	350	350	350	350	350
Subtotal	\$45,096	\$45,096	\$41,166	\$41,166	\$41,166
Depreciation Expense	\$7,704	\$7,704	\$4,368	\$4,368	\$4,368
Property Taxes	1,681	1,681	1,106	\$1,106	\$1,106
Payroll Taxes	940	940	1,115	\$1,115	\$1,115
State Income Tax	800	870	800	2,264	1,672
Federal Income Tax	0	1,272	0	3,313	2,445
Total Deductions	\$56,221	\$57,563	\$48,555	\$53,332	\$51,872
<u>Net Revenue</u>	-\$20,279	\$14,540	-\$12,613	\$18,772	\$13,858
<u>Rate Base</u>					
Average Plant	112,760	112,760	110,607	110,607	110,607
Avr. Accum. Deprec.	5,673	5,673	4,005	4,005	4,005
Net Plant	107,087	107,087	106,602	106,602	106,602
Plus: Finaling Cash	0	0	0	0	0
Materials & Supplies	0	0	0	0	0
Less: Acc Deferred Income Taxes	0	0	0	0	0
<u>Rate Base</u>	\$107,087	\$107,087	\$106,602	\$106,602	\$106,602
<u>Rate of Return</u>	loss	13.6%	loss	17.6%	13.0%

APPENDIX B

Schedule No. CE-1A

ANNUAL GENERAL METERED SERVICE

COUNTRY ESTATES DISTRICT

APPLICABILITY

Applicable to all water service furnished to the County Estates District Service Area

TERRITORY

Tracts Nos. 1951, 2196, 2552, and 2553 and vicinity, located approximately 9 miles east of Bakersfield, Kern County

RATES

Quantity Rate:		Per Meter	
		<u>Per Month</u>	
All water delivered per 100 cu. ft.	\$ 1.077	(I)

Service Charge:		Per Meter	
		<u>Per Month</u>	
For	5/8 x 3/4-inch meter	\$18.60	(I)
For	3/4-inch meter	20.90	(I)
For	1-inch meter	27.90	(I)
For	1-1/2 inch meter	55.00	(I)
For	2-inch meter	88.00	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added monthly charge computed at the Quantity Rate.

APPENDIX C

**DEL ORO WATER COMPANY
COUNTRY ESTATES DISTRICT**

COMPARISON OF RATES

A comparison of the present and Branch's recommended rates is shown below:

Usage	Per Meter Per Month			
	Present Rates	Recommended Rates	Increase	
			Amount	Percent
5/8 x 3/4-inch meter				
0	\$7.00	\$18.60	\$11.60	165.71%
10	\$13.95	\$29.37	\$15.42	110.54%
20	\$21.35	\$40.14	\$18.79	88.01%
1-inch meter				
0	\$10.50	\$27.90	\$17.40	165.71%
10	\$17.45	\$38.67	\$21.22	121.60%
20	\$24.85	\$49.44	\$24.59	98.95%

APPENDIX D

DEL ORO WATER COMPANY
COUNTRY ESTATES DISTRICT
ADOPTED QUANTITIES

Test Year 2001

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Expenses:

1. Purchased power (Electric)

Vendor	Pacific Gas & Electric Company
Schedules	A-1P: Summer and Winter
Effective Date	1/1/2001
Filed Date	2/26/2001

	Total Rate per kWh
Winter Energy Charge	\$ 0.10193
Summer Energy Charge	\$ 0.14870

Avg Power Consumption in kWh	109,300
Total Purchased Power (\$)	\$14,942

2. Purchased water

None

3. Insurance Expenses

Liability	\$800
Workers Compensation	\$900
Total Cost	\$1,700

4. Ad Valorem Taxes

Composite Tax Rate	1.0000%
Assessed Value	\$110,606

5. Payroll Taxes

Medicare	\$178
Federal Unemployment	\$56
State Unemployment	\$112
Social Security	\$0
State emp training	\$7
FICA	\$762

6. Number of Service Connections:

Metered Rate	
5/8 x 3/4-inch service	16
3/4-inch service	0
1-inch service	73
1/2-inch service	0
2-inch service	<u>0</u>

Total 89

7. Water Sales (Ccf) - Metered Customers:

35000

APPENDIX D

DEL ORO WATER COMPANY
COUNTRY ESTATES DISTRICT
ADOPTED QUANTITIES
Test Year 2001
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Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$65,730	\$65,730
2.	O & M Expenses	\$41,166	\$41,166
3.	Taxes Other Than Income	\$2,221	\$2,221
4.	Depreciation	\$4,368	\$4,368
5.	Taxable Income for State Tax	\$17,975	
6.	State Tax	\$1,672	
7.	Taxable Income for FIT		\$16,303
8.	Federal Income Tax		\$2,445
9.	Total Income Tax		\$4,117
California Corporate Franchise Rate		9.30%	
Federal Income Tax Rate			
	On first \$50,000 of taxable income	15%	
	On next \$25,000 of taxable income	25%	